MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BAC4694 – FORENSIC ACCOUNTING

(All sections / Groups)

7 MARCH 2016
9.00 a.m – 12.00 a.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of three (3) pages exclusive of the cover page with 4 questions only.

2. Answer all four (4) questions in the answer booklet provided. Each question is worth 25 marks.

QUESTION 1

Mr Aris is a successful Engineering Consultant in Kuala Lumpur. He has a comprehensive injury and disability insurance policy that he has carried since shortly after he started establishing his firm. During the first 10 years of his practice, he has average net income of RM1 million. At the beginning of the 11th year of practice, he experienced an accident at his office in which he fell and hit his head. Ever since the accident, he has experienced serious headaches and dizziness that he had not experienced before. As a result of these symptoms, Mr Aris is unable to work the long hours that he once did and he has been unable to grow his practice. He expected to grow his income by about 10% a year. He has filed a lost earning capacity claim (which is being contested) with the insurance company.

Mr Aris has hired you to prepare a measure of economic damages resulting from the accident. Johan was 50 years old at the time of the accident and he has just turned into 52 years old a few days ago.

Required:

(a) (i) Explain the possible claims that Mr Aris could ask from the insurance company besides a claim of lost earning capacity in order to cover his economic damages. (9 marks)

(ii) Advice Mr Aris on the factors that insurance company should consider in evaluating his loss earnings capacity. (6 marks)

(b) Explain five procedures to be followed by an expert witness to maintain his/her credibility at all times during the trial. (10 marks)

(Total: 25 marks)

QUESTION 2

a) Jamal and Jamaliah have recently been experiencing serious marital problems. They are seeing a counsellor at Islamic Relation Office, Kuala Lumpur, in order to 'save their marriage'. During the past several months, Jamal has sold 2 of their house properties to his girlfriend Radiah for extremely low prices compared with current market price. Jamaliah believes his story that he is selling them because they are hard up for money and that he is putting the money into their jointly-savings account. However, she does not know who has been purchasing the assets. She is shocked during the divorce to find out that there is very little money in the savings account. Where had it all gone? She had never paid much attention to the finances and had trusted Jamal completely.

Required:

(i) In what kind of scam is Jamal and Jamaliah involved? (2 marks)

(ii) How could Jamaliah verify that the assets were actually sold? (5 marks)

(iii) What are some possible motivations for Jamal to sell the house properties at extremely low prices? (6 marks)

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b) As a result of the system audit performed by one of the Big 5 accounting firms at ITMJ Sdn Bhd, it was discovered that Malathi, one of the payroll supervisors, had system access rights to transaction codes used by the HR staff. Consequently, it was determined that Malathi took advantage of the situation and created a fake employee to whom she was issuing a paycheck every month; only the checks went to Malathi's banking account. Subra, an investigator working on the case, did extensive research, details of which led him to believe that Malathi was embezzling. Subra is about to go in for a final interview with Malathi which she had been interviewed before and denied that she was involved in the embezzling scheme.

Required:

Explain the interviewing tactics Subra should use in getting Malathi to admit that she was stealing from ITMJ Sdn Bhd. (12 marks)

(Total: 25 marks)

QUESTION 3

(a) Most of the financial statement schemes can be classified into one or more of these categories:

i. Fictitious revenues
ii. Timing differences
iii. Concealed liabilities and expenses
iv. Related-party transactions
v. Improper asset valuations

Required:

(i) Define and briefly describes the above financial statement schemes. (10 marks)

(ii) What are the red flags associated for the above fraud schemes? (For each scheme, state **TWO** red flags). (10 marks)

(b) Explain which is more difficult to conceal, fictitious revenue recognition or premature revenue recognition? In answering this question, consider the timing of the fraud (i.e., which is more likely to occur at year-end).

(5 marks)

(Total: 25 marks)

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QUESTION 4

(a) Explain the three phases of the money laundering process.

(6 Marks)

(b) Businesses are affected by money laundering activities as money launderers look for ways to legitimatise their illegal cash. For each of the following explain how a money launderer could launder cash.

(i) Smurfing

(ii) Cash exchange for negotiable goods

(iii) Online auctions

(iv) Gambling

(10 Marks)

(c) Discuss **three (3)** anti-money laundering program that can be implemented to regulate the businesses.

(9 Marks)

(Total: 25 marks)

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